IDEAS ON INTELLECTUAL PROPERTY LAW

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Not in the "Nick of Time"

Court rejects retroactive copyright license

In a case of first impression, the Second Circuit Court of Appeals foiled a defendant's attempt to avoid copyright infringement liability. The court ruled in *Davis v. Blige* that an infringement action by a co-author of a copyrighted work cannot be defeated by a retroactive transfer of copyright ownership from another co-author to the alleged infringer.

The right to sell and transfer is an incident of ownership of a protected work.

She wrote the songs

Sharice Davis claimed that two songs on Mary J. Blige's 2001 album *No More Drama* infringed copyrights on two of her songs. Although she received no songwriting credit on the album, Davis contended that she co-wrote the songs with Bruce Chambliss, Blige's stepfather (and not a defendant in the case), in 1998.

Several defendants registered the songs in question with the Copyright Office in August 2001, including Bruce Miller. In February 2002, defendant Miller, Chambliss' son, granted an exclusive license of his copyright interests in the songs to a third party not involved in the lawsuit.

Davis registered the songs with the Copyright Office in August 2002, listing Chambliss as a co-author. She then filed suit in December 2003 against Miller and others. As part of the litigation, Chambliss provided deposition testimony. The day before the deposition, he allegedly transferred his interest in the songs to Miller in two written agreements. The agreements purported to make the transfers effective as of the date Chambliss first created the songs.

The district court granted the defendants' motion for summary judgment. It reasoned that a co-owner has the legal right to grant a license without another co-owner's permission or to transfer his or her rights in the copyright.

Know much about history?

On appeal, the defendants argued that Miller became a co-owner of the songs after the transfer agreements, and Davis couldn't sue a co-owner or an owner's licensees for infringement. The court turned to the Copyright Act's legislative history.

It determined that co-authors of a copyrighted work should generally be treated as tenants in common. This means that each has an independent right to use or license the use of the work, subject only to a duty of accounting to other owners for any profits.

Ratification rejected, too

Bruce Miller alternatively argued that he and Bruce Chambliss had orally agreed that Chambliss would transfer his interests in the songs to Miller in 1998 or 1999, before the alleged infringement even occurred. He acknowledged that the Copyright Act requires all transfer agreements to be in writing but claimed that the 2004 written agreements ratified the earlier oral agreement.

The Second Circuit rejected the ratification argument. If no written agreement documented the assignment at the time the songs were used by the defendants, then the defendants had no legal right to use the songs and Sharice Davis' right to bring suit for infringement accrued. Chambliss and Miller couldn't extinguish her claims by ratifying an earlier oral agreement that had no legal effect when it was entered.

The court distinguished an earlier opinion holding that a third-party infringer couldn't contest the validity of an oral transfer agreement made under pre-1978 copyright law and later memorialized in writing. It held that the earlier case doesn't foreclose a presumed copyright holder — as opposed to an infringer — from using the invalidity of an alleged oral transfer agreement to defeat an infringer's attempt to avoid liability for accrued infringement claims.

The right to sell and transfer is an incident of ownership of a protected work, though a co-owner can convey only his or her rights. The right to pursue an infringement action is another incident of ownership, and a co-owner isn't required to join other co-owners in the action.

Court can't go for that

The Second Circuit concluded the trial court had relied on district court decisions that were different from the present case. They involved retroactive licenses granted under negotiated settlements of accrued infringement claims. But the court found that licenses and assignments function differently than do settlements and releases.

Settlements are generally retrospective and exclusively between an unauthorized user and the owner. Absent clear language, they aren't licenses for future use. A settlement can waive only claims held by the settling owner; it can't waive claims belonging to co-owners who aren't a party to the agreement.

Licenses and assignments, however, are prospective, allowing use by a nonowner not otherwise entitled to use the work. A retroactive license or assignment would authorize past unauthorized use. The court found that, under the district court's decision, a retroactive license would "erase the unauthorized use from history with the result that the nonparty co-owner's right to sue for infringement, which accrues when the infringement first occurs, is extinguished."

The Second Circuit held that this result is inconsistent with the general principles of tort and contract law. By "undoing" unlawful infringement, a retroactive license would:

- Destroy the co-owner's vested right to enforce his or her claim,
- Wrongly bind nonparties to the contract, and
- Convey more than the co-owner owns.

So Chambliss could release his own accrued claims of infringement against the defendants, but not Davis' rights against Miller.

The court also discussed two policy reasons for disfavoring retroactive licenses:

1. The need for predictability and certainty, and

2. Discouragement of infringement.

If retroactive licenses were allowed, parties wouldn't be able to determine if and when infringement occurred because it could be undone. And allowing a retroactive license would lower the cost of infringement, making it more attractive. An infringer could essentially buy its way out of a lawsuit by paying a single co-owner for a retroactive license.

It takes two

So the case reaffirms a basic contract principle that a co-owner cannot unilaterally convey his or her interest without the other owners' consent. Because an exclusive license conveys an ownership interest — which impairs the interests of other co-owners and diminishes the copyright's value to the extent they cannot exploit the licensed rights — all owners must agree to an exclusive license. ❍

Patently flawed

Inventions deemed outside of patentable subject matter

The first U.S. patent was granted in 1790 for "making pot and pearl ashes" — a cleaning formula used in soapmaking. Three years later, Congress established four categories of subject matter eligible for patents. Inventions have changed a lot since then, but the categories haven't, posing problems for some contemporary inventors.

The Federal Circuit Court of Appeals recently issued two opinions that confirmed the strict boundaries that continue to surround patentable subject matter. The court rejected a business method as an unpatentable mental process because it wasn't combined with a machine in *In re Comiskey*. In a second case, *In re Nuijten*, the court concluded that an electrical signal alone didn't constitute patentable subject matter.

Routinely adding modern electronics to an otherwise unpatentable invention typically creates a *prima facie* case of obviousness.

Setting boundaries

The Patent Act of 1793 allowed a patent for "any new and useful art, machine, manufacture or composition of matter." Those categories remain essentially intact today, with one exception. The Patent Act of 1952 made a technical change, replacing "art" with "process."

The increasing value of business methods over the past decade raised the question of whether such methods were patentable. In *State Street Bank & Trust Co. v. Signature Financial Group,* the court held that business methods are patentable but "are subject to the same legal requirements for patentability as applied to any other process or method." In other words, the method must fall into at least one of the statutory categories.

An abstract matter

Comiskey reached the Federal Circuit as an appeal of the trial court's finding that the plaintiff's patent claims were obvious. The appellate court didn't address the obviousness issue, however, because it determined the relevant claims weren't patentable.

Comiskey's patent application claimed a method and system for mandatory arbitration of challenges or complaints involving legal documents. Two of the claims in the application described steps in the method but didn't reference the use of a mechanical device such as a computer. According to the court, the two claims were for a mental process of resolving a legal dispute between parties by the decision of a human arbitrator. The Federal Circuit noted that the Supreme Court has made it clear that "abstract ideas" aren't patentable.

But the Supreme Court also has held that an abstract idea with a practical application can be patentable if it's "embodied in, operates on, transforms, or otherwise involves another class of statutory subject matter," such as a machine, manufacture or composition of matter. The Federal Circuit has found processes involving abstract algorithms used in computer technology patentable because they claimed practical applications and were tied to specific machines.

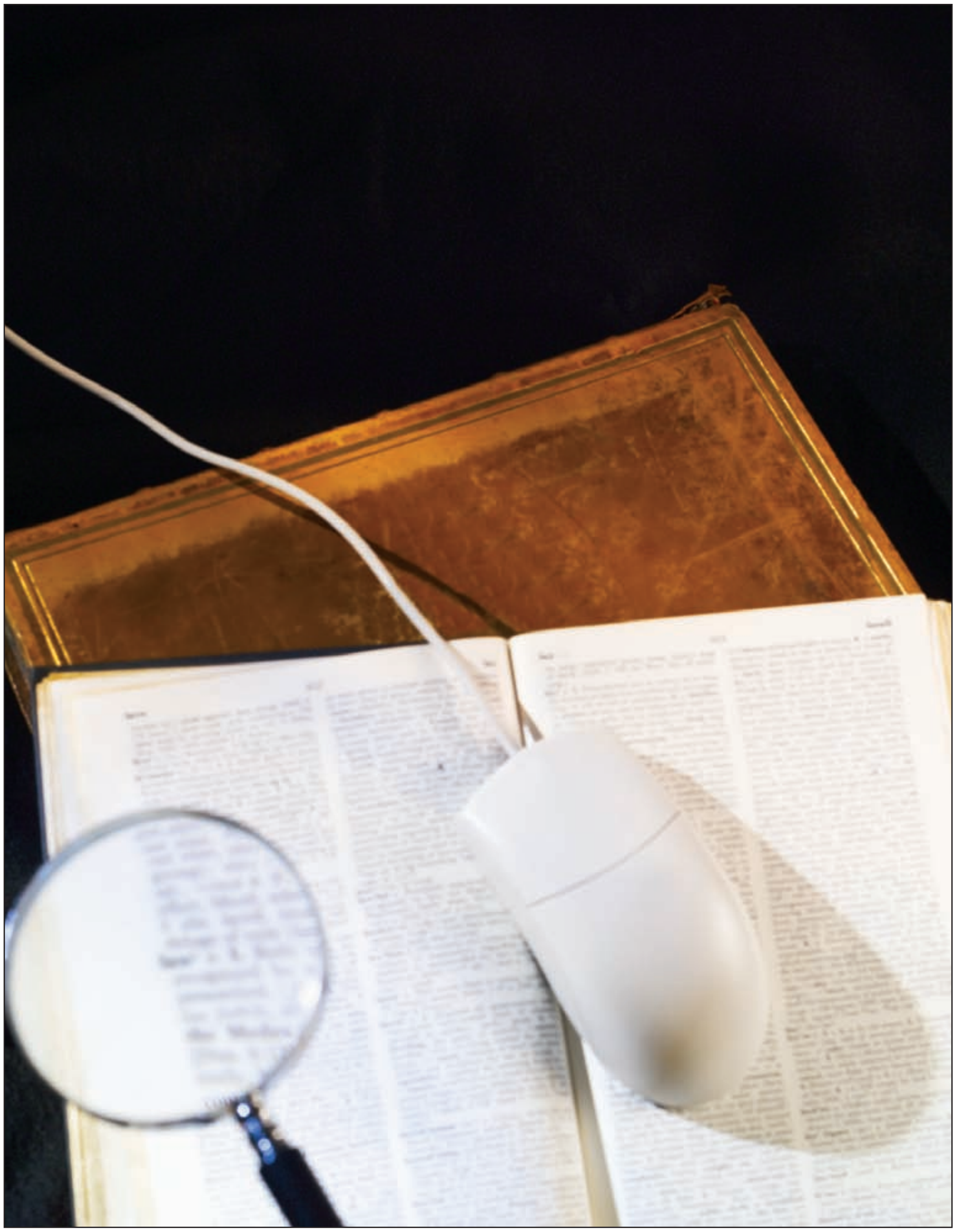
Still, as the court explained, mental processes of human thinking *alone* — even with a practical application — aren't patentable: "The application of human intelligence to the solution of practical problems is not in and of itself patentable." The court found that the claims in question sought "to patent the use of human intelligence in and of itself" and were therefore unpatentable.

The other claims at issue in *Comiskey* weren't unpatentable because they could require the use of a computer. The court found that, while the mere use of a computer for the application of the mental process may not make a claim patentable, the claims at issue that combined the use of machines with a mental process did claim patentable subject matter.

The court cautioned that routinely adding modern electronics to an otherwise unpatentable invention typically creates a *prima facie* case of obviousness. It sent the remaining claims back to the district court for determination of whether the addition of computers and communication devices to the invention would have been obvious.

Distress signal

Nuijten's patent claimed a technique for reducing the distortion caused by embedding data into a signal like a digital audio file during a process called watermarking. Watermarking is useful for protecting media against unauthorized copying.



The U.S. Patent and Trademark Office's Board of Patent Appeals and Interferences found that the claims directed to a storage medium for the signal and the process of generating the signal stated statutory subject matter, but rejected other claims as unpatentable. On appeal to the Federal Circuit, the issue for the court was whether "a transitory, propagating signal" itself was within any of the four statutory categories. It analyzed each category separately:

Process. The court pointed out that the Supreme Court and the Federal Circuit have "consistently" interpreted the term "process" to require action. Nuijten argued that the signal claims refer to the performance of acts because the signal must be encoded in accordance with an encoding process. But the court held that the presence of acts in a claim doesn't transform a claim covering a thing like a signal into one covering the process for making that thing.

Machine. The Supreme Court has defined a machine as "a concrete thing, consisting of parts, or of certain devices and combination of devices." The Federal Circuit found that a transitory signal made of electrical or electromagnetic variances isn't composed of parts or devices in any mechanical sense.

Manufacture. The court conceded that the manufacture category posed a more difficult question. The claimed signals are man-made, but artificiality alone is insufficient to render something a "manufacture." The court cited several definitions of manufacture that refer to the production of tangible articles or commodities and found that the signals within the scope of the claim didn't comprise tangible articles or commodities.

Composition of matter. Nuijten didn't challenge the conclusion that the signal wasn't a composition of matter. Nonetheless, the court noted that the Supreme Court has defined the term to mean "all compositions of two or more substances and all composite articles, whether they be the results of chemical union, or of mechanical mixture, whether they be gases, fluids, powders or solids." An electrical signal didn't fit this description.

The subject matters

The *Comiskey* and *Nuijten* cases demonstrate the wisdom of including a variety of claims in a patent application. Neither patent was entirely defeated by the Federal Circuit's rulings because certain claims survived. ❍

Direct infringement or directing infringement?

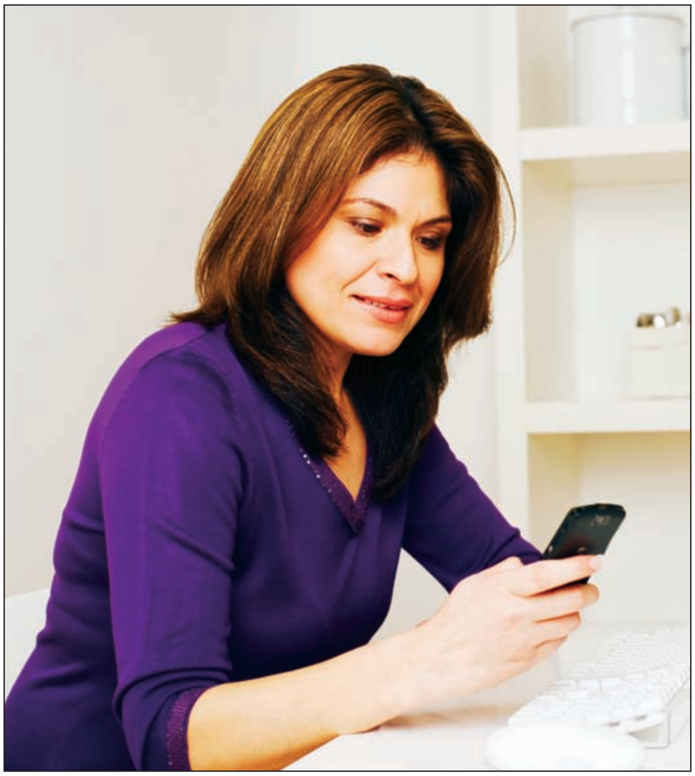
Joint patent infringement standard clarified

Too many cooks spoil the broth, and, according to the Federal Circuit Court of Appeals, too many participants can spoil the infringement claim. In *BMC Resources, Inc. v. Paymentech, L.P.*, the court cleared up lingering confusion and defined the standard for joint infringement of a single patent claim by multiple parties.

Joint pain

BMC Resources is the assignee of two patents that claim a method for processing debit transactions without a personal identification number (PIN). The patents disclose a method for PIN-less debit bill payment (PDBP) that allows customers to perform real-time bill payment using a telephone keypad. The method features the combined action of several participants, including the payee's agent, a remote payment network and the financial institutions that issue debit cards.

Paymentech processes financial transactions for clients as a third party and began marketing PDBP services in 2002.



When BMC learned of Paymentech's offer to provide such services, it demanded that Paymentech obtain a license to use its patented technology. Paymentech refused and filed suit seeking a declaration of noninfringement. BMC counterclaimed for direct and indirect infringement.

Paymentech argued that it didn't perform all of the patented method's steps by itself or in coordination with its customers and financial institutions. The district court agreed, determining that Paymentech didn't infringe on the patent claims because it performed some, but not all, of the claim's steps.

Joint venture

Direct infringement requires that a party perform or use each and every step or element of a claimed method, process or product. Indirect infringement is implicated when a defendant participates in or encourages infringement but doesn't directly infringe the patent. It requires only that one party among the defendants has committed the entire act of direct infringement.

The court recognized that vicarious liability rules may appear to provide a loophole for a party to escape infringement liability by having a third party perform one or more of the claimed steps on its behalf. But the court concluded that, "[t]o the contrary, the law imposes vicarious liability on a party for the acts of another in circumstances showing that the liable party controlled the conduct of the acting party."

Thus, a defendant cannot avoid liability for direct patent infringement by having someone else carry out steps on its behalf. If a party contracts out some steps of a patented process to another entity, the party in control would be liable for direct liability.

Joint commission

BMC argued that a 2006 opinion by the Federal Circuit sanctioned a finding of infringement by a party who performs only some steps in cases in which a patent claims a new and useful invention that cannot be performed by a single person. BMC asserted that the case adopted a "participation and combined action" standard for joint infringement, in place of the traditional standard requiring a single party to perform all of the steps.

The court found that BMC's interpretation went beyond settled law. Rather, the court confirmed that infringement has always required a showing that a defendant has practiced each and every element of the claimed invention.

Joint effort?

The court indicated that concerns about a party avoiding infringement by arm's-length agreements with third parties can usually be minimized by structuring the claim to capture infringement by a single party.

For example, BMC could have drafted its claims to refer to a single party supplying or receiving each element of the process. BMC instead described four different parties performing different acts within one claim, which the court called "ill-conceived." Because Paymentech didn't perform or cause to be performed each and every element of the claims, the court affirmed the district court's dismissal of BMC's claim against Paymentech.

Fixed joint

The court confirmed that joint infringement law hadn't changed. In the case in question, neither the financial institutions, the debit networks nor Paymentech bore responsibility for the actions of the others. ❍

Court "disparages" unusual trademark claim

Can a trademark be disparaged? And if so, can the trademark owner file a lawsuit? A nonprofit organization found out when the Ninth Circuit Court of Appeals denied its claim.

The Freecycle Network (TFN) is a nonprofit that encourages and coordinates the reusing, recycling and gifting of goods. TFN initially used the term "freecycle" and its derivatives more generally to refer to the act of recycling goods for free using the Internet.

In 2004, TFN member Tim Oey advised TFN to file a trademark application for the mark FREECYCLE and institute a strict usage policy, preventing use of the term in any sense other than referring to TFN or its services. An opposition to the application was filed, and the mark remained unregistered as of the Ninth Circuit's opinion.

Oey experienced a change of heart and decided "freecycle" should remain in the public domain. He made various online statements asserting that TFN lacked trademark rights in the term and encouraged others to use the term in the generic sense and oppose the attempts to register the term.

TFN sued Oey, seeking an injunction to stop him from making comments about TFN that might be seen as disparaging. It accused Oey of "trademark disparagement" under the Lanham Act, and argued that Oey had made a false statement, with malice, about TFN's operations and the validity of its mark.

The court described the elements of trademark disparagement as seeming "to have been derived largely from a common law 'slander of title' claim," finding the elements couldn't be gleaned from the act's text or its prohibition against unfair competition. It also noted "the absolute dearth of precedent analyzing such a claim under the Act."

Regardless, the court found that TFN failed to satisfy the alleged elements. Oey's statements that TFN lacked trademark rights weren't false and couldn't be considered a false statement of fact.

So the Ninth Circuit concluded that, in the absence of trademark infringement, false designation of origin, false advertising or trademark dilution, an action for trademark disparagement can't proceed. And potential plaintiffs considering a slander claim should remember that truth is generally a defense.

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American Red Cross Sued For Using Red-Cross Trademark

Johnson & Johnson has sued the American Red Cross for infringement of its well-known red-cross trademark. According to the suit, J&J has been using its red-cross logo since 1887 and registered it with the U.S. Patent and Trademark Office in 1906. J&J accuses the charity of unlawfully licensing the mark to other manufacturers.

Established by congressional charter in 1900, the Red Cross has the right to use the logo in “carrying out its purposes” of extending wartime aid to the wounded, as well as providing relief in medical disasters and other peacetime emergency situations. In 1905, Congress passed a law prohibiting anyone other than the American Red Cross and U.S. military hospital authorities from using the red cross logo, with the exception of anyone already using the logo lawfully—an exception that includes J&J.

The suit noted that J&J has seldom come into conflict with the American Red Cross over the logo’s use. J&J retained the rights to use the logo for products marketed to the public while the Red Cross used it for charitable purposes. This understanding was confirmed in an agreement Red Cross founder Clara Barton executed with J&J in 1895. The agreement specifically acknowledged J&J’s “exclusive use of a red cross as a trademark and otherwise for chemical, surgical, pharmaceutical goods of every description,” the complaint said.

Until recently, the two entities have cooperated with each other in effectively exercising and enforcing their respective rights in the red- cross design. However, the suit contends that the Red Cross has begun licensing its logo to makers of medical gloves, hand sanitizers, and first aid kits for use on their products. In doing so, J&J alleges the Red Cross has profited from a symbol that it does not have rights to disseminate for commercial purposes, often at J&J’s expense.

According to the complaint, “carrying out a commercial enterprise or business is not and never has been one of [the Red Cross’] purposes.” The suit further notes that many of the products for which the Red Cross licensed the logo compete directly with J&J’s products.

The complaint asks the court to issue a permanent injunction and an order to destroy all existing infringing product. J&J is also seeking lost profits and damages, as well as attorney’s fees.

In October, the Red Cross filed counterclaims accusing J&J of unfair competition. It alleged that its emblem has been protected by Congress for more than 100 years and that J&J has competed unfairly by reaching beyond the scope of its trademark. The case is currently pending before the U.S. District Court for the Southern District of New York.

If you have questions about trademark law, please contact Kyle Peterson at (612) 252-1554 or *peterson@ptslaw.com*.

Patterson, Thuente, Skaar & Christensen Names New Partners

Patterson, Thuente, Skaar & Christensen is pleased to announce it newest partners: Bradley J. Thorson and Scott G. Ulbrich. Both attorneys contribute unique experience and strong technical backgrounds to the firm and its growing client-base.

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